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TAGS: [EAID](#) [ECIN](#) [ETRD](#) [PGOV](#) [NU](#)  
SUBJECT: STATE AND USAID POLICY PLANNING DIRECTORS VISIT  
NICARAGUA TO ASSESS U.S. ASSISTANCE PROGRAMS

Classified By: AMBASSADOR PAUL TRIVELLI, REASONS 1.4 (B,D)

11. (SBU) SUMMARY: In their joint visit to Nicaragua, State Director of Policy Planning Stephen Krasner and USAID Assistant Administrator for Policy and Program Coordination Douglas Menarchik made clear that State, USAID and the White House are considering ways to reduce the complexity of U.S. foreign assistance delivery while increasing its effectiveness, especially as it relates to U.S. national security interests. GON representatives, business leaders and foreign donors expressed a preference for untied U.S. assistance, such as budget support. Several requests were made to expand coordination to participate directly with other donors in a sector-wide approach program (SWAP) involving pooled funding, instead of discrete USG/GON bilateral projects. Embassy staff highlighted efforts to overcome manipulation of the election process and judicial corruption, as well as the stark consequences of a Sandinista (FSLN) victory in the November 2006 Presidential elections. They also emphasized the vital work that USAID and the rest of the Mission are providing in the areas of health, education and trade-capacity building. Representatives of the GON noted that they consider the benefits of Millennium Challenge Corporation (MCC) eligibility to be on par with the IMF program, CAFTA and the Highly Indebted Poor Countries (HIPC) initiative. The delegation visited two USAID-funded projects in which 12,000 micro-farmers are graduating from being food aid recipients and subsistence farmers to pooling their production to meet the high volume and quality demands of major supermarket suppliers in the United States and Central America. Paragraphs Thirteen and Fourteen provide a primer on international foreign assistance in Nicaragua. A list of non-Mission participants in the meetings is found at the end of this message. END SUMMARY

Working for Democracy and Rule of Law  
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12. (U) Mission and civil society participants outlined the threats of FSLN and Liberal Constitutional Party (PLC) electoral shenanigans, including efforts by allies of the two parties on the Nicaraguan Supreme Electoral Council (CSE) to undermine democratic candidates. USAID is supporting the Consortium for Elections and Political Party Support (CEPPS) and is awaiting a proposal from the OAS to field a long-term election observation mission. The Mission is also working with a broad coalition of Nicaraguan civil society to pressure authorities to prevent manipulation of the electoral process and educate voters about their rights. Participants mentioned that this is an area where relatively modest financial resources can be crucial to protecting Nicaraguan democracy. (NOTE: Already budgeted but undelivered FY06 ESF funding for these activities is urgently needed to prepare for regional elections on the Atlantic Coast in March 2006.)

13. (C) While corruption remains a problem in various sectors of Nicaraguan society, anticorruption experts described the especially pernicious effects of judicial corruption and the strong efforts - led by USAID - to address this situation. Former Supreme Court Magistrate Guillermo Vargas described how the "sinister" pact ("El Pacto") between the PLC and FSLN have packed Nicaraguan courts with judges who take their marching orders from the political strongmen who lead the two parties. Presidential Legal Advisor Fernando Zelaya lKQQC[utotrafficking, the proceeds of which some allege is being used to fund the FSLN political campaign. Adela Torrente from the American Nicaraguan Chamber of Commerce explained how the lack of rule of law negatively impacts Nicaragua,s business climate. Mignone Vega, an anticorruption advisor in the Office of the Presidency, noted the political price that President Bolanos has paid for leading a campaign against corruption, with party strongmen Daniel Ortega and Arnolando Aleman keeping the country in a constant crisis to avoid accountability for their corrupt acts. Several participants hailed the effectiveness of USAID efforts to combat corruption and said that this is the moment to strengthen that support.

Working for Economic Growth and Stability  
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Acting Foreign Minister Pitches Budget Support  
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14. (SBU) Acting Foreign Minister and Development Coordinator Mauricio Gomez provided his detailed analysis of various assistance programs for Nicaragua. He described international support as consisting of 580 official development projects with 40 partners and 300 missions, accounting for 14% of Nicaragua's GDP. The need to coordinate with all of those entities "develops a lot of bureaucracy on the part of the Government and hurts the capacity to govern," he argued. He claimed that reliance on programs run by foreign governments, international organizations and NGOs in place of government ministries creates inefficient and duplicative "parallel structures" that hinder the GON's ability to efficiently serve the needs of the people. He believes that Nicaragua needs to generate its own resources to make GON social spending sustainable.

15. (SBU) Gomez opined that the reason for the unwillingness of some donors to provide budget support is "perception" that the GON lacks transparency. Gomez asserted that, while the former Aleman Government "had to spend a lot of time defending its actions, we're better now," adding that the present government is "built on efficiency and transparency." In his view, Nicaragua does not need more money, but rather more flexibility to use existing levels of support so that less is spent on outside entities -especially contractors- that use up a good deal of the funds on overhead. (NOTE: Gomez directed some of this criticism directly at USAID - probably because the USG has declined to participate in budget support, which he champions, or to commit to much of the Harmonization and Alignment process, which he coordinates. See Paragraph Fourteen for details.)

International Donors Call for More Coordination - And Budget Support  
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16. (SBU) Representatives of several donor countries and international organizations repeated many of the themes from the Gomez meeting. International donors called for more direct USG involvement in the coordination of foreign assistance in Nicaragua. Swedish Ambassador Eva Zetterberg lamented the lack of USG involvement in multilateral development cooperation efforts (known as the Sector Wide Approach - see Paragraph Fourteen for details), and suggested that U.S. representatives at least participate as observers in the Budget Support Group, which includes representatives of entities that provide budget support to the GON. IDB

official Eduardo Balcarcel acknowledged the time-consuming nature of some donor coordination initiatives but called for ad hoc "coordination in the field" to ensure that efforts are complementary. Jurg Benz, Swiss Development Agency (COSUDE) Country Director and chair of the Budget Support Group, lamented that there are too many donors working on too many priorities, and not enough donor specialization. (Note: USAID chairs the Trade-Capacity Building Donor Group ("mesa") and the Mission is active in the Election, Health and Education Mesas. Also, federal law prohibits the pooling of donations with foreign governments, other than via international institutions of which the U.S. is a member.)

¶7. (SBU) IDB Representative Balcarcel offered examples of how budget support lets ministries manage multiple projects - some of them very small - for themselves to avoid duplication of efforts. "Budget support avoids transaction costs, particularly for small donors," he noted. Colleen Littlejohn of the World Bank commented that donors place a burden on the GON. For example, an officer in the Education Ministry spent his first three weeks on the job doing nothing but attending coordination meetings. She used the same term as Acting Foreign Minister Gomez in decrying "parallel structures." Dr. Menarchik reasoned that results are difficult to measure with budget support and underlined the reality of having to be accountable to taxpayers for results.

#### Donors Address Concerns About "Turning Off the Tap"

¶8. (SBU) International donors also addressed Dr. Krasner's concerns about budget support limiting leverage should democracy be threatened. He noted that the history of conditionality is that too often recipients make commitments and do not keep them, but nonetheless, donors keep on paying. Their response was that donors flag corrupt or anti-democratic actions, in which case some would likely continue funding while others would pull out. Responding to a comment by Dr. Krasner about the difficulty of "turning off the tap", Ambassador Zetterberg recalled that the Budget Support Group had to some extent turned off the tap in 2005. They had promised \$120 million, but when Nicaragua's macroeconomic program went off track, intense discussions arose over whether disbursements should continue. In the end, most donors disbursed, but very late, and only \$89 million.

¶9. (SBU) Dr. Krasner stressed the advantage of the MCC approach, where conditionality is up front. The MCC Resident Country Director pointed to the recent enactment of legislation to fund the highway trust fund (FOMAV) as a successful example of donors coordinating to pressure Nicaragua to pass politically sensitive legislation establishing a gas tax for FOMAV that would let donors fund road construction with an assurance that the roads would be maintained thereafter. Dr. Krasner indicated that focused, results-oriented interactions between donors on specific issues rather than holding "countless meetings debating slides" is a preferable form of cooperation. The international donors also remarked that USAID is a leader in health programs in Nicaragua.

#### Some Business and Civic Leaders Join the Call for Budget Support

¶10. (SBU) A group of Nicaragua's "best and brightest" private and public sector leaders called for a "pragmatic" approach to development assistance aimed at trade-capacity building (TCB). Treasury Minister Mario Arana repeated the now familiar call for budget support and "flexibility," and decried the onerous burden of "parallel structures" on GON ministries. Some other participants questioned the ability of the GON to properly manage large grants to the national treasury. The types of TCB assistance called for were infrastructure development, assistance in developing "niche

market" crops for export, workforce training and macroeconomic stability. While they did acknowledge that many USAID and MCC programs are already directed at these specific items, one participant rejoined that current programs have given Nicaragua enough high-dollar consultants' reports to wallpaper the country - a comment very similar to one made by Acting Foreign Minister Gomez. Several applauded the MCC approach of focusing on private sector development and allowing beneficiaries to participate in the process. The economic leaders also registered their fears that an FSLN presidential win in November 2006 would devastate Nicaragua's economy. (Comment: As in the past, some Nicaraguan business leaders are reportedly prepared to financially support FSLN leader Ortega's campaign to ensure that if Ortega wins, he will not exclude them from their part of the economic pie. End Comment.)

#### Mission Staff Emphasize Priorities

11. (C) Throughout the visit, Mission staff provided input and observations about U.S. assistance in Nicaragua. Ambassador Trivelli stated that the Mission's core objectives in Nicaragua for the next year are 1) survival of the Bolanos government (which now seems likely), 2) ratification and implementation of DR-CAFTA (which is pending passage of legislation on IPR and other issues), 3) final implementation of the MCC compact (which is also on track), and 4) free and fair elections. He remarked that as bad as the level of poverty in Nicaragua remains, the country has made remarkable progress in the 15 years since the end of the Civil War. USAID Mission Director stressed that USAID plays a critical role in maintaining regional stability and credited USAID efforts with much of that improvement through democracy enhancement, economic development and quality health and education programs. He explained that USAID resources are currently focused on free and fair elections in November 2006 as a bi-lateral priority interest. USAID is focusing its economic program on TCB by promoting public and private sector cooperation. USAID staff said that in order to fully take advantage of CAFTA, Nicaragua needs to strengthen its public institutions, invigorate its private sector and integrate its economy within the region. USAID's emphasis on TCB programs helped generate 24,000 new jobs last year.

12. (C) USAID staff also stressed the importance of the Mission's health and education programs, stating that they are essential for national and regional economic progress and social stability. The MCC Resident Country Director said his agency and USAID maintain a collaborative and close relationship in Nicaragua and are working to avoid duplication of effort. Mission personnel were very clear about the dangers of an FSLN victory in the 2006 Presidential elections. A Sandinista win would likely result in capital flight, a setback in open markets, an anti-U.S. foreign policy and an immigration crisis, as many Nicaraguans would likely seek sanctuary in the United States and neighboring countries. For these reasons, timing is crucial for the receipt of election and other financial assistance to bolster chances for a reform-minded, democratic candidate to win the elections.

#### A Brief Primer on International Donor Activities in Nicaragua

13. (U) Total donor assistance averages about \$500 million per year in grants and loans. The assistance in new grants and loans (obligations) for 2004 was \$532 million of which \$313 million came from bilateral donors and \$219 million from multilateral sources. Principal bilateral donors were Sweden (\$56.45 million), United States (\$55.87 million - not including the \$175 million 5-year MCC Compact), Denmark (\$44.76 million), Japan (\$33.7 million), Finland (\$22.73 million), and Netherlands (\$17.6 million). Multilateral assistance and loans come primarily from the Inter-American Development Bank (for competitiveness, tax reform and social sector adjustment), the World Bank (for support of

implementation of Nicaragua's Poverty Reduction Strategy) the European Commission (for rural development, agricultural policy and education) and various UN agencies. In recent years forgiveness of about \$5 billion of Nicaragua's \$6 billion plus bilateral and multilateral foreign debt has been approved. However, substantial internal debt of \$6.52 billion remains.

¶14. (U) The GON has been actively working to improve donor coordination in the country, and seeks to harmonize donor activities and align donor assistance to its national development plan. The GON has expressed strong interest in budget support or Sector Wide Approaches (SWAPs).

This preference was expressed in the Declarations of Paris and Managua, and endorsed by donors in 2003. USAID interprets SWAPs as the coming together of donors, the GON, and civil society to agree on development objectives, priorities in a sector and implementation. Some donors equate SWAPs directly to budget support. While USAID policy generally precludes budget support assistance (and federal law prohibits the pooling of resources), the Mission fully supports the concept of SWAPs for the purpose of setting a common vision and goals, and ensuring coordination among donors in implementing assistance programs.

#### A List of Non-USG Participants in Discussions

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¶15. (U) The following guests participated in an Electoral Assistance Discussion: Gilberto Valdes, representing the International Republican Institute; Deborah Ullmer, representing the National Democratic Institute; Pablo Garlarce and Rafael Lopez, representing the International Foundation for Election Systems (IFES). All of these organizations are part of the Consortium for Elections and Political Party Support (CEPPS).

¶16. (U) The following guests participated in an Anticorruption Roundtable: Former Supreme Court Magistrate Guillermo Vargas, Solicitor General Fernando Zelaya, Mignone Vega, Presidential Anti-corruption Advisor; Adela Torrente, American Nicaraguan Chamber of Commerce.

¶17. (U) The following guests participated in an International Donor Roundtable: Swedish Ambassador Eva Zetterberg, representing the Donor Group; German Ambassador Gregor Koebel, representing the European Union; Eduardo Balcárcel, Inter-American Development Bank representative; Coleen Littlejohn, World Bank representative; Swiss Development Agency (COSUDE) Country Director Jurg Benz, representing the Budget Support Group.

¶18. (U) The following guests participated in an Economic Growth/CAFTA Roundtable: Minister Mario Arana, Ministry of Treasury; Dr. Carlos Sequeira, Secretary for Coordination and Strategy, Office of the Presidency; Roberto Bendana, Presidential Competitiveness Commission; Dr. Juan Sebastian Chamorro, presidential advisor; Adolfo Arguello, Multiple Investments Administration; Dr. Adolfo McGregor, business and civic leader; Juan Carlos Pereira, Nicaraguan Investment Promotion Agency (ProNicaragua); Lucia Salazar (former Minister of Tourism and founder of ProNicaragua).

¶19. (U) The following individuals participated in visits to the El Verbo Model Farm and Training Center and Hortifruti Produce Distribution Center: Robert Trolese, El Verbo Country Director; Jorge Sandoval, farm manager; Alberto Pereira, Hortifruti General Manager; Tomas Membreno, Chief of Party for USAID Cooperative Agreement with Michigan State University.

Dr. Krasner reviewed this cable prior to transmission.

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